



Ernie Fletcher
Governor

Mark David Goss
Chairman

Teresa J. Hill, Secretary
Environmental and Public
Protection Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

John W. Clay
Commissioner

Timothy J. LeDonne
Commissioner
Department of Public Protection

May 30, 2007

Honorable John J. Finnigan, Jr.
Senior Counsel
The Union Light, Heat and Power Company
139 East Fourth Street
Cincinnati, OH 45202

RE: Case No. 2007-00209
Duke Energy Kentucky, Inc.
(Tariffs)

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received May 21, 2007 and has been assigned Case No. 2007-00209. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at (502) 564-3940.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/tw



Ernie Fletcher
Governor

Mark David Goss
Chairman

Teresa J. Hill, Secretary
Environmental and Public
Protection Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

John W. Clay
Commissioner

Timothy J. LeDonne
Commissioner
Department of Public Protection

Lisa D. Steinkuhl
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45202

May 30, 2007

RE: Case No. 2007-00209
Duke Energy Kentucky, Inc.
(Tariffs)

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received May 21, 2007 and has been assigned Case No. 2007-00209. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at (502) 564-3940.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/tw



139 East Fourth Street
P.O. Box 960
Cincinnati, Ohio 45201-0960
Tel: 513-419-6954
Fax: 513-419-6948
Lisa.Steinkuhl@duke-energy.com

Lisa Steinkuhl,
Rates Coordinator

VIA OVERNIGHT DELIVERY.

May 18, 2007

Ms. Elizabeth O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

MAY 21 2007

PUBLIC SERVICE
COMMISSION

Dear Ms. O'Donnell:

Case No. 7007-00709

Pursuant to the Stipulation approved by the Commission in Case No. 2006-00172, Duke Energy Kentucky hereby submits its updated Off-System Sales and Emission Allowance Sales Profit Sharing Mechanism Rider ("Rider PSM"), to be effective with the first billing cycle in June 2007, along with backup schedules.

This filing applies the sharing formula for margins on off-system sales during 2006 established in the Order in Case No. 2005-00228, approving the merger between Cinergy Corp. and Duke Energy, and the sharing formula for both off-system sales and sales of emission allowances per the Order in Case No. 2006-00172. The computed value of the customer share of margins in both formulas is compared to the amount of actual credits provided to ratepayers for the same period. The current Rider PSM rates were established in the merger Order and have been unchanged since inception. The balance of the amount owed to customers as of April 30, 2007, will be credited to customers beginning with the first billing cycle in June 2007 through the last billing cycle of August 2007.

The Company will make subsequent Rider PSM filings on a quarterly basis.

Please time-stamp the extra copy that I have enclosed and return for our file. Thank you for your timely assistance in this regard.

Please contact me if you have any questions.

Sincerely,

Lisa Steinkuhl

Enclosure

**RIDER PSM
OFF-SYSTEM POWER SALES AND EMISSION ALLOWANCE SALES
PROFIT SHARING MECHANISM**

APPLICABILITY

Applicable to all retail sales in the Company's electric service area, excluding interdepartmental sales, beginning with the billing month June 2007.

PROFIT SHARING RIDER FACTORS

The Applicable energy charges for electric service shall be increased or decreased to the nearest \$0.000001 per kWh to reflect the sharing of profits on off-system power sales and the net margins on sales of emission allowances.

The Company will compute its profits on off-system power sales and margins on emission allowance sales in the following manner:

$$\text{Rider PSM Factor} = (P + E + R)/S$$

where:

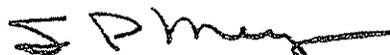
- P = Eligible profits from off-system power sales for applicable month subject to sharing provisions established by the Commission in its Order in Case No. 2003-00252, dated December 5, 2003. The first 100% of profits up to \$1 million during the current year are credited 100% to customers. Cumulative profits for the current year in excess of \$1 million are shared between customers and shareholders on a 50%/50% basis. After December 31st of each year, the sharing mechanism will be reset.
- E = All net margins on sales of emission allowances are credited to customers per the Commission's Order in Case No. 2006-00172, dated December 21, 2006.
- R = Reconciliation of prior period Rider PSM actual revenue to amount calculated for the period.
- S = Current month sales in kWh used in the current month Rider FAC calculation.

Issued by authority of an Order of the Kentucky Public Service Commission dated December 21, 2006 in Case No. 2006-00172.

Issued: May 21, 2007

Effective: May 31, 2007

Issued by: Sandra P. Meyer, President



<u>Rate Group</u>	<u>Rate</u> (\$/ kWh)
Rate RS, Residential Service	0.003082
Rate DS, Service at Secondary Distribution Voltage	0.003082
Rate DP, Service at Primary Distribution Voltage	0.003082
Rate DT, Time-of-Day Rate for Service at Distribution Voltage	0.003082
Rate EH, Optional Rate for Electric Space Heating	0.003082
Rate GS-FL, General Service Rate for Small Fixed Loads	0.003082
Rate SP, Seasonal Sports Service	0.003082
Rate SL, Street Lighting Service	0.003082
Rate TL, Traffic Lighting Service	0.003082
Rate UOLS, Unmetered Outdoor Lighting	0.003082
Rate OL, Outdoor Lighting Service	0.003082
Rate NSU, Street Lighting Service for Non-Standard Units	0.003082
Rate NSP, Private Outdoor Lighting Service for Non-Standard Units	0.003082
Rate SC, Street Lighting Service – Customer Owned	0.003082
Rate SE, Street Lighting Service – Overhead Equivalent	0.003082
Rate TT, Time-of-Day Rate for Service at Transmission Voltage	0.003082
Other	0.003082

SERVICE REGULATIONS

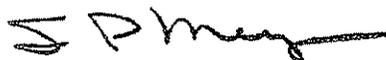
The supplying of, and billing for, service and all conditions applying thereto are subject to the jurisdiction of the Kentucky Public Service Commission, and to the Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission as provided by law.

Issued by authority of an Order of the Kentucky Public Service Commission dated December 21, 2006 in Case No. 2006-00172.

Issued: May 21, 2007

Effective: May 31, 2007

Issued by: Sandra P. Meyer, President



DUKE ENERGY KENTUCKY
CALCULATION OF RIDER PSM CREDIT FOR JUNE-AUGUST 2007 BILLING

Line No.	Description	Billing Month				Total
		Jan-07	Feb-07	Mar-07	Apr-07	
1	Off-System Sales Margin Allocated to Customers from 2007 (Schedule 2, Line 21)					(+) \$ 1,994,905
2	Net Margins on Sales of Emission Allowances (Schedule 4, Line 9)					(+) 904,339
3	Prior Period Carryforward (Schedule 3, Line 25)					(+) <u>992,421</u>
4	Total Amount of Credits Owed to Customers					\$ 3,891,665
5	Actual Amount Credited to Customers	197,032	212,556	185,841	151,304	(-) <u>746,733</u>
6	Net Refund due to (from) Customers					\$ 3,144,932
7	Sales (kWh) from FAC Filing January, February and March 2007 (FAC Schedule 3, Line C)					+ <u>1,020,427,061</u>
8	Profit Sharing Mechanism Credit Rate (\$/kWh)					<u><u>0.003082</u></u>

Effective Date for Billing:

May 31, 2007

Submitted by:



Title:

Rate Coordinator

Date Submitted:

May 21, 2007

DUKE ENERGY KENTUCKY
OFF-SYSTEM SALES SCHEDULE
PERIOD: YEAR TO DATE - APRIL 30, 2007

Line No.	Description		Jan-07	Feb-07	Mar-07	Apr-07	Total
1	Off-System Sales Revenue						
2	Asset Energy	(+)	\$1,799,167	\$1,395,109	\$3,539,484	\$0	\$6,733,760
3	Non-Asset Energy	(+)	0	0	0	0	0
4	Bilateral Sales	(+)	843	1,537	1,932	795	5,107
5	Hedges	(+)	0	27,418	0	0	27,418
6	MISO RSG Make Whole Payments ^(a)	(+)	967,782	727,603	877,382	0	2,572,767
7	Sub-Total Revenues		<u>\$2,767,792</u>	<u>\$2,151,667</u>	<u>\$4,418,798</u>	<u>\$795</u>	<u>\$9,339,052</u>
8	Variable Costs Allocable to Off-System Sales						
9	Bilateral Purchases	(+)	\$0	\$0	\$0	\$0	\$0
10	Non-Native Fuel Cost ^(a)	(+)	1,803,523	1,575,880	2,213,990	0	5,593,393
11	Variable O&M Cost	(+)	109,555	62,444	165,727	0	337,726
12	SO ₂ Cost	(+)	128,379	81,039	199,473	0	408,891
13	NO _x Cost	(+)	0	0	0	0	0
14	MISO and Other Costs	(+)	2,512	2,264	4,455	1	9,232
15	Sub-Total Expenses		<u>\$2,043,969</u>	<u>\$1,721,627</u>	<u>\$2,583,645</u>	<u>\$1</u>	<u>\$6,349,242</u>
16	Off-System Sales Margin (Line 7 - Line 15)		\$723,823	\$430,040	\$1,835,153	\$794	\$2,989,810
17	Allocated to Customers (up to 100% of first \$1.00 million) ^(b)						<u>1,000,000</u>
18	Sub-Total (Line 16 - Line 17)						\$1,989,810
19	Percentage Allocated to Customers (50% of margins > \$1.00 million) ^(b)						<u>50.00%</u>
20	Remainder of Off-System Sales Margin Allocated to Customers (Line 18 x Line 19)						<u>994,905</u>
21	Off-System Sales Margin Allocated to Customers (Line 17 + Line 20)						<u>\$1,994,905</u>

Note: ^(a) Line 10 - Line 6 ties to the Duke Energy Kentucky's FAC Filing Schedule 4, Line C.

February amounts vary from FAC Filing by \$844. The FAC filing and supplemental information will be corrected when the month is trued up for MISO resettlements.

^(b) Per the Commission's Order dated December 5, 2003, in Case No. 2003-00252.

DUKE ENERGY KENTUCKY
OFF-SYSTEM SALES SCHEDULE
PERIOD: TWELVE MONTHS ENDED 12/31/2006

Line No.	Description	Total
1	Off-System Sales Revenue	
2	Asset Energy	(+)\$22,982,633
3	Non-Asset Energy	(+)(25,880)
4	Bilateral Sales	(+49,492)
5	Hedges	(+7,376)
6	MISO RSG Make Whole Payments	(+) <u>2,098,783</u>
7	Sub-Total Revenues	<u>\$25,112,404</u>
8	Variable Costs Allocable to Off-System Sales	
9	Bilateral Purchases	(+3,826)
10	Fuel Cost	(+15,522,250)
11	Variable O&M Cost	(+1,261,949)
12	SO ₂ Cost	(+4,408,093)
13	NO _x Cost	(+172,898)
14	MISO Costs	(+) <u>48,478</u>
15	Sub-Total Expenses	<u>\$21,417,494</u>
16	Total Off-System Sales Margin (Line 6 - Line 13)	(+)\$3,694,910
17	Allocated to Customers (guaranteed 100% of first \$1.45 million) ^(a)	(-) <u>1,450,000</u>
18	Sub-Total	(+)\$2,244,910
19	Allocated to Duke Energy Kentucky (100% of next \$400,000) ^(a)	(-) <u>400,000</u>
20	Sub-Total (2006 Sharing of Margins on Off-System Sales)	\$1,844,910
21	Percentage Allocated to Customers (50% of margins > \$1.85 million) ^(a)	50.00%
22	Remainder Allocated to Customers (Line 20 x Line 21)	<u>\$922,455</u>
23	Total Allocated to Customers (Line 17 + Line 22)	(+)\$2,372,455
24	Amount Credited to Customers in 2006	(-) <u>1,380,034</u>
25	Remaining PSM Credit Due to Customers at 12/31/06	<u><u>\$992,421</u></u>

Note: ^(a) Per provisions included in the Commission's Order November 29, 2005, in Case No. 2005-00228.

DUKE ENERGY KENTUCKY
 EMISSION ALLOWANCE SALES MARGIN
 PERIOD: YEAR TO DATE - APRIL 30, 2007

Line No.	Description		Jan-07	Feb-07	Mar-07	Apr-07	Total
1	SO2 Sales Margin						
2	Proceeds	(+)	\$0	\$0	\$1,209,989	\$0	\$1,209,989
3	Cost of Sale	(-)	0	0	846,078	0	846,078
4	Margin		0	0	363,911	0	363,911
5	NOx Sales Margin						
6	Proceeds	(+)	\$0	\$0	\$555,800	\$490,250	\$1,046,050
7	Cost of Sale	(-)	0	0	483,303	22,319	505,622
8	Margin		0	0	72,497	467,931	540,428
9	Total EA Sales Margin (Line 4 + Line 8)		0	0	436,408	467,931	904,339